10/15/86 C 2710-2-P

# Pensions & Investment Age

Entire contents copyright 1986 by Crain Communications Inc. All rights reserved

The newspaper of corporate and institutional investing • $4.00 an issue • $75 a year • September 29, 1986

*****5-DIGIT 20814
RVZ
STATLR PI 862059 59
STATISTICAL REFERENCE INDEX
4520 EAST-WEST HWY SU 800
BETHESDA MD 20814

# Managers pressured to change proxy votes

By Chuck Paustian

Corporate executives alter the proxy voting policies of some institutional investment managers by threatening, both directly and indirectly, the loss of pension accounts and other lines of business, *Pensions & Investment Age* has learned.

Industry sources said the executives involved in proxy battles use the clout of both existing and potential business relationships to change the proxy votes of investment managers.

The sources also said the executives enlist the aid of their counterparts at other corporations to bring pressure on the managers.

James E. Heard, deputy director of the Investor Research Responsibility Corp., Washington, said money managers have told him of several instances of pressures brought by corporate executives.

"I think it's more widespread than we realize. The kind of anecdotal evidence I have is only the tip of the iceberg," he said.

Mr. Heard declined to name the individuals, or the institutions, but described several examples:

- Two commercial banks changed their voting policies as a result of pressure from corporate executives.

"In the cases I know of, the pressure initially came from outside the bank, but resulted in significant pressure inside the institution," said Mr. Heard.

- An insurance company was instructed by its parent company to vote in favor of all anti-takeover proposals, rather than independently reviewing such proposals.
- Two insurance companies changed their voting policies to favor all anti-takeover measures, after opposing them for the previous two years.

Robert A. Monks, president of Institutional Shareholder Services Inc., Washington, also said he knows of examples of corporate pressure affecting the voting policies of investment managers.

"I have been told by a number of responsible officials of institutional investment firms (that they) were subjected to pressure with respect to their votes," he said.

Mr. Monks, who is a former administrator of the Department of Labor's Office of Pension and Benefit Welfare Programs — now known as the Pension Welfare Benefits Administration, also declined to name names.

He did say proxy battles often place money managers in a difficult situation. "It's a place where

*Continued on page 80*

Pensions & Investment Age

# Inside:

CORPORATE FINANCE: Lands' End dashes local investment banks' hopes for a role in its planned IPO — page 39.

CASH MANAGEMENT: An account analysis standard, due to be released in November, could relieve several headaches for corporate cash managers, but its quick adoption by banks doesn't seem likely — page 25.

# Bill to reshape benefits

## Defined contribution plans will change, but won't die

By Joel Chernoff and Richard Gillespie

TAX REFORM

WASHINGTON — The tax reform bill expected to pass Congress next week will force a restructuring of all defined contribution plans, but few expect the plans to wither away.

What's more, the bill's sweeping changes in pension rules will cause a massive review by employers of their companies' retirement income objectives.

How employers will come out of the process remains unclear. "I find it hard to shake it out. It's so individual by company," said Theresa Stuchiner, partner at Kwasha Lipton, Fort Lee, N.J.

The bill was designed, in part, to enhance the appeal of defined benefit plans, chiefly by withdrawing many of the shorter-term savings-type features of defined contribution plans.

Nonetheless, the overall effect of the bill could bolster usage of 401(k) salary reduction plans as one of the few remaining vehicles where employees can shelter a portion of their income and receive a matching contribution from their employers. In particular, the loss of deductibility for contributions to individual retirement accounts for higher-paid employees could increase this pressure, experts said.

Meanwhile, the bill makes old-fashioned thrift plans a thing of the past, some believe. It's "the untold story of tax reform," said Edward J. Davey, vice president-technical analysis for Johnson & Higgins, New York.

A series of changes, including how different industries fare under the tax bill, may cause a sweeping reassessment of how both defined benefit and defined contribution plans fit into the corporate structure and how they are viewed by companies. For example:

- Tax bill changes affecting distributions from defined contribution plans may cause employee participation to suffer. And to meet toughened non-discrimination rules, employers might have to enhance these plans or limit benefits to managers. In any event, a giant re-education effort for employees will be required.
- Lessened benefits for senior management will cause companies to supplement their retirement benefits through unfunded, non-qualified plans. At the same time, this may erode executives' ties to the qualified retirement plans.
- Lower personal tax rates will cause employers to focus more on cash compensation for senior executives, especially if companies believe tax rates will go back up in the future.

In addition, the lower rates, combined with a bevy of new restrictions, will discourage small companies from setting up plans.

"The engine that has driven plan formation . . . has pretty well been driven off the tracks," said Everett T. Allen Jr., vice president for Towers, Perrin, Forster & Crosby, Philadelphia.

- Shorter vesting rules and stricter integration standards will boost pension costs for many employers, although the cost impact will vary dramatically.
- New coverage rules, while still unclear, will force plan mergers or altered benefits among companies that maintain separate plans for small units or those with separate plans for salaried and non-union hourly workers. Also, firms with large numbers of part-time employees, such as retailers, will be hard hit.

*Continued on page 77*

# Phantom surplus haunts USX

By Barry B. Burr

PITTSBURGH — USX Corp.'s $1.9 billion in excess pension assets that is luring corporate raiders appears to be a phantom surplus that could disappear if all or some of USX's overfunded pension plans were terminated.

Some analysts cast doubt on the size of the reversion USX, or raiders, could receive, citing falling interest rates, rising annuity costs, taxes and the expense of possible additional plan shutdowns.

Still, one analyst said a USX reversion could yet exceed $1 billion.

Phantom surpluses already have forced United Air Lines Inc., Chicago, to revise termination proposals, in large part because the excess assets no longer were there.

In addition, Goodyear Tire & Rubber Co., Akron, Ohio, canceled a termination filing. It had expected to recapture $350 million from a $1.5 billion plan.

Gary Pines, a consultant with Towers Perrin Forster & Crosby, Chicago, speculated lower interest rates and higher annuity prices could absorb much of the surplus USX reported it had at the end of last year. Mr. Pines noted, however, he is not familiar with the USX plans.

USX executives, in an official statement, said termination of the company's plans "wouldn't result in a significant cash contribution to the corporation."

In fact, "additional funding may be required in the near future," the statement said.

USX officials declined to elaborate on the statement, which noted the company's actuary — Buck Consultants Inc., New York — has been asked to conduct a study of its liabilities.

The USX statement was issued in response to suggestions by some analysts that raiders who recently acquired large stakes in USX cited the use of the pension surplus to buy back USX stock to boost the value of its shares.

Robert Holmes a Court, of Australia, disclosed last month he might buy as much as 15% of USX stock. In addition, there have been unconfirmed reports of interest by corporate raiders.

William Hoffman, general manager-public affairs at USX, said he knows of no action the company is taking to protect any surplus it might have. Other firms, such as Union Carbide Corp., Darien, Conn., have adopted so-called pension parachutes, an anti-takeover device to deny those involved in a hostile takeover the excess pension assets.

USX reported its aggregate pension assets totaled $9.39 billion, while the present value of its liabilities totaled $7.46 billion, as of Dec. 31, the latest data, leaving a $1.9 billion surplus on a termination basis.

*Continued on page 77*

# *Salomon repeats as favored firm*

By Marci Baker

NEW YORK — For the second consecutive year, Salomon Brothers Inc. took the crown as the favored brokerage firm among institutional investors assessing the equity and fixed-income research and execution capabilities of the country's brokerage firms.

Thanks largely to its prowess in the fixed-income arena, Salomon Brothers garnered more points than any other firm on Wall Street in *Pensions & Investment Age*'s sixth annual institutional brokerage survey.

Merrill Lynch & Co. and Goldman, Sachs & Co. retained their second- and third-place ratings, respectively.

The survey results were based on 97 responses from independent money managers and investment officers of internally managed pension funds with an aggregate

*Continued on page 33*

## Focus is on Minnesota

# 5 invest in venture fund

By Trudy Ring

MINNEAPOLIS — Five tax-exempt funds in Minnesota have confirmed they made commitments to Superior Ventures, a $36 million venture capital partnership that will focus on in-state investments.

The funds and the amounts committed are: the $395 million Pillsbury Co. pension fund, Minneapolis, a $3 million commitment; the $550 million Control Data Corp. pension fund, Minneapolis, $2 million; the $350 million Bush Foundation, St. Paul, $2.5 million; the $11 billion Minnesota State Board of Investment, St. Paul, $6 million; and the $225 million University of Minnesota endowment fund, St. Paul, $1.5 million.

It was the initial venture capital commitment for the foundation and one of two initial commitments for the endowment fund.

Officials of two other pension funds that reportedly invested in the venture capital fund declined comment.

Companies that invested in the fund with corporate, rather than pension, money were St. Paul Fire and Marine Insurance Co., St. Paul, and Minnesota Power & Light Co., Duluth, officials at those firms said.

The partnership, which closed in June, will be diversified by industry and will invest in both start-up and later-stage companies, with some investments in special situations and leveraged buy-outs, said Mitch Dann, partner in IAI Venture Capital Group, manager of the fund.

IAI Venture Capital Group is affiliated with Investment Advisers Inc., Minneapolis.

IAI Venture Capital organized Superior Ventures because Minnesota's strong base in technology and health care represented numerous opportunities for venture capitalists, Mr. Dann said.

The venture capital group's staff includes people who have built businesses and now can spend time helping other enterprises grow, he said.

"You can't do that far away from home," he said.

Pillsbury's allocation rounds out the diversification of the pension fund's venture capital commitments, said John Bohan, vice president-pension investment. The fund has investments in partnerships concentrating on other parts of the country, Mr. Bohan said.

The fund has about 3% of its assets committed to venture capital, including a commitment to IAI Venture Partners, IAI Venture Capital Group's earlier fund, which closed in 1983.

Mark Feldman, manager-retirement department at Control Data said of Superior Ventures, "It looked like it would be a well-run fund," he said. "It's an organization we have a relationship with."

Control Data also participated in IAI Venture Partners.

The Bush Foundation's commitment is its first move into venture capital, said Gerald Skogley, business manager.

The foundation's asset allocation model, prepared with consultant DeMarche Associates, Kansas City, Mo., suggested venture capital would be an attractive investment, Mr. Skogley said. Also, the partnership may aid the local economy, he said.

The Minnesota investment board went into Superior Ventures for returns, not as any type of social investment, said John N. Griebenow, senior portfolio manager-alternative investments.

"We know Minnesota very well," Mr. Griebenow said. "We believe that there's plenty of opportunity that somebody such as Superior Ventures could exploit."

Superior Ventures is the 10th venture capital limited partnership in the board's portfolio, he said.

The board has $143 million committed to those partnerships.

The investment board also recently hired T. Rowe Price Associates Inc., Baltimore, to handle and make buy or hold decisions on initial public offerings from the venture capital portfolio, Mr. Griebenow said. No companies in the portfolio have gone public yet, but the board wanted to be ready when this happens, he said.

The University of Minnesota fund committed $1.5 million to Superior Ventures and the same amount to Northern Boundary Partners II, a fund investing in young companies primarily in the upper Midwest, said Roger Paschke, director of investments.

Northern Boundary Partners is managed by Piper, Jaffray & Hopwood Inc., Minneapolis.

The fund isn't limited to regional venture capital partnerships, but considers them whenever possible, Mr. Paschke said. ■

## Tax sessions never sounded so sensuous

By Richard J. Gillespie

WASHINGTON — A pension industry representative achieved brief notoriety when she left a tongue-in-cheek message replete with Mae West-style innuendo in tax-code-speak on her telephone answering machine.

"Hello, do you speak tax code?" she purred in a husky voice. "If so, how would you like to have a multiple integration? I will ignore the gross disparities in your withdrawal and lump-sum distributions and we can just recede to the House if you like, or we can roll over right here. You don't have to worry about protection, we can just use the elapsed-time method. Glad to be of service."

Within hours, the number was all over scandal-loving Washington. Within days, it hit The Federal Page column in The Washington Post.

The voice turned out to be that of Karen Friedman, education director of the Pension Rights Center, and a writer and performer with a local satirical group, the Public Interest Follies.

A somewhat embarrassed, but unrepentant Ms. Friedman stressed the call was purely a personal endeavor and should in no way reflect upon the Pension Rights Center, which supports retirees' rights issues.

According to Ms. Friedman, she had returned home from a long, tiring and extremely boring session with members of the joint tax committee, and was feeling exhausted, so she composed the message.

Photo by Ken Heinen

*Karen Friedman*

"I thought there had to be humor in the tax bill. Everybody was getting so burnt out about it. There has been a complete dearth of humor in Washington lately, and people are getting really hungry for it. But I had no idea it would take off like this," said Ms. Friedman, who composed the first known pension industry satirical review at a Pension Rights Center fund-raiser some years ago.

The message was great for business, according to Ms. Friedman, who said she lined up some gigs for the Public Interest Follies as a result, including one from a member of the National Republican Senatorial Committee.

A spokeswoman for the NRSC strenuously denied the allegation and claims it must have been a practical joke.

## Questionnaires due for directory

*Pensions & Investment Age* will publish its 1986 directory of investment consultants Nov. 10.

Questionnaires have been mailed to more than 200 consultants and replies are due Oct. 6 for inclusion in the directory.

If your investment consulting firm has not yet received a questionnaire, or if you have questions regarding the questionnaire or directory, call Carol Wiley, directory coordinator, (312) 649-5486.

# L.A. County recoups $1.5 million from bank

By Steve Hemmerick

LOS ANGELES — The $6 billion Los Angeles County Employees' Retirement Association has settled a dispute with its custodian, Security Pacific Bank, in which the fund will be paid at least $1.5 million in back interest.

And for unrelated reasons, four other California pension funds in the past six months have switched from Security Pacific to East Coast banks for master custodial services.

The four that dropped Security Pacific as custodian are the $500 million Screen Actors Guild, Producers, North Hollywood, Calif.; the $560 million Sacramento County Employees' Retirement Association; the $625 million San Diego County Employee Retirement System; and the $400 million Ventura County Employees' Retirement Association.

Officials from the four funds said there is no single reason for the change. But they did cite a desire for greater customization of reporting software and communication problems as being among the reasons.

Board members of the Los Angeles County system said Security Pacific didn't always credit the fund with dividends and payments between April 1981 and December 1985 on the payable date — whether or not those dividends and payments had been received on the payable date.

Board members said they had an understanding with Security Pacific that the bank was to credit the fund on the payable date.

The dispute between the bank and the fund concerning timely crediting was first proposed for settlement in April. Since an agreement was reached on the settlement contract, some additional amount of back interest was paid to the county, but the amount, although believed to be relatively small, is unknown.

County pension fund officials also are in the midst of a five-year review of the fund's investment transactions.

A report by Richard C. Dixon, Los Angeles county treasurer and tax collector, said the pension fund staff found instances of dividends and payments from securities received after the payable date being credited to the retirement account after the payable date.

The bank, the report said, post-

*Continued on page 80*

# Currency-linked paper draws execs' interest

By Marci Baker

NEW YORK — Salomon Brothers Inc.'s new short-term product — currency-linked commercial paper — may be a best seller, at least among Salomon clients.

Performance Indexed Paper, or PIPs, has piqued the interest of a number of the firm's commercial paper clients.

Some Salomon clients last week expressed a strong interest in looking more closely at the product.

"When you have the ability to sell dollar-denominated paper with little additional risk and to sell it at a lower price, common sense suggests you take a serious look at it," said Michael Koban, treasurer of Hospital Corp. of America, Nashville, Tenn. Indeed, a try, unless accounting, tax or other technical problems surface.

"It's hard to envision there will be problems in those areas," Mr. Koban said.

A review of the paper is on the "things-to-do list" at PepsiCo Inc., Purchase, N.Y., said Janet Levine, assistant treasurer.

"We've heard about it, but haven't received any specific documents describing the product," she said. "But if Salomon has some way to do commercial paper at an attractive cost, it's something we want to look at."

"We think this is a very intriguing idea," added Charles Wilson, treasurer at Ryder System Inc., Miami.

"There aren't too many ideas we would jump at to save five to 10 basis points, but this may be one

## Highlights


**CASH MANAGEMENT**

Account analysis form set ... 25
Execs, managers see need for index ... 25
Cash accounts ... 25

**CORPORATE FINANCE**

Midwest retailer hires N.Y. firm for IPO ... 39
Toymakers ready to play Wall Street's game ... 39
New issues chart ... 39
Corporate notes ... 45

**FEATURES**

Brehm: Performance fees: handle with care ... 70
Hall: What to do about divesting ... 72

**REAL ESTATE**

Fresno County adds real estate ... 17
California Employees' hiring 3 ... 17
50% drop in office construction seen ... 18
Wrap-up ... 17

**GENERAL NEWS**

Alternative minimum tax impact assessed ... 6
Study: ERISA falling short ... 8
International Paper names pension chief ... 10

**DEPARTMENTS**

Current accounts ... 66
Datebook ... 47
Late news ... 82
Letters ... 12
Market beat ... 29
Money movers ... 75
News briefs ... 36
Opinion ... 12
People ... 55
Research report ... 74
Washington notebook ... 35


Cover by Avalon Studios, Chicago

Vol. 14, No. 21 — Pensions & Investment Age (ISSN 0273-5466) is published every other Monday at 740 Rush St., Chicago, Ill. 60611. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investment Age, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207. Copyright 1986.

DYNAMIC VALUE PORTFOLIOS

SASCO CAPITAL, INCORPORATED
Equity Managers

For more information contact

Lee C. Garcia • Daniel F. Sullivan
Managing Directors (203) 254-6800

Ten Sasco Hill Road, Fairfield, Connecticut 06430

# International Paper names pension chief

NEW YORK — Myra Drucker has been appointed director-trust investments at International Paper Co., where she will oversee $1.4 billion in pension assets.

Ms. Drucker has been manager-trust investments at Xerox Corp., Stamford, Conn., which has about $2.4 billion in employee benefit assets, for 4½ years. At International Paper, she replaces Charles T. Henry, who left in January to pursue personal business interests.

Ms. Drucker said she had not been looking to leave Xerox, but International Paper made her an offer she couldn't refuse.

"I will be reporting directly to the chief financial officer," she said.

"Working with Bob Evans (director-employee benefit assets) at Xerox has been a wonderful experience. It is the best No. 2 slot in the country, and it is better than a lot of No. 1 slots. But IP is giving me the chance to be No. 1."

Ms. Drucker, who previously has worked for Peat Marwick Mitchell & Co. and Drexel Burnham Lambert Inc., is president of the National Investment Sponsors Federation, the national association of regional pension sponsor groups.

Mr. Evans said no action has been taken on hiring a replacement for Ms. Drucker yet, and he had no candidates in mind.

He said International Paper has given Ms. Drucker an excellent opportunity.

"When you have someone as bright and as talented as Myra, it's only a matter of time before you are likely to lose them," he said. ■

## Corrections & clarifications

• The following profile of CIGNA Asset Advisers Inc. was omitted inadvertently from the Sept. 15 real estate advisers directory.

**CIGNA Asset Advisers Inc.**
*Hartford, Conn. 06152; (203) 726-6000*

| | |
|---|---|
| Tax-exempt real estate assets | $1,058 million |
| Equity | $1,058 million |
| Tax-exempt real estate clients | 434 |
| Total real estate assets managed | $10,764 million |
| Equity | $2,274 million |
| Mortgages | $8,490 million |

As of June 30, CIGNA Asset Advisers Inc.'s real estate holdings for tax-exempt clients had a market value of $775.3 million. Of the total $1.06 billion in real estate equity, $151.5 million represented contributions received but not invested and $131.3 million, contributions committed but not yet received.

Of the total, $926 million was in commingled funds and $132.1 million was in direct, separate accounts.

The firm managed $52 million for foreign pension funds.

All of the invested assets were in existing properties. The asset mix by property type was office, 32.7%; office research and development, 33.4%; hotel, 6%; apartments, 12.7%; industrial, 5.1%; and retail, 10.1%. CIGNA is emphasizing retail and apartment facilities.

The firm offers several commingled funds.

Fund S, a closed-end limited partnership for endowments, foundations and non-qualified pension plans, closed January 1985 and is almost fully invested. Investments are allowed in retail, industrial, research and development/service center, apartments and office buildings on a wholly owned or joint-venture basis.

CEREF, a closed-end equity separate account for ERISA funds, closed June 30, 1985. It is invested in fully built and leased retail, hotel, industrial, apartment, office building and research and development properties.

Separate Account R, an open-end fund for ERISA plans, is invested in moderate-size properties capable of generating attractive, increasing cash returns while appreciating in value. Investments are in existing and to-be-built commercial properties diversified by location and property type.

Two closed-end funds will be offered in the coming year, investing in properties requiring rehabilitation or upgrading, and other special situations. Fund T will be a limited partnership for endowments, foundations and non-

WHAT IF YOU COULD IMPROVE RETURN ON A $500 MILLION PORTFOLIO BY .3 PERCENT?

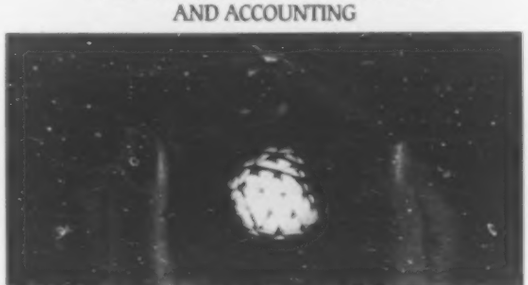
There is one system—just one—designed to help you realize that kind of potential by changing nothing but your people's access to information.

The system is ISA PRISM. Integrated, on-line, real-time, IBM mainframe-based—PRISM is designed to give financial professionals instant access to the information they need to achieve optimum return.

And it's from ISA—a United Telecom company—whose systems are already helping manage half a trillion dollars on three continents.

If your organization is managing securities without PRISM, you may be settling for a smaller return than you should. Have someone look into it. Call us at 1-800-554-1193. In Georgia, 404-587-6865.

PRISM INVESTMENT MANAGEMENT AND ACCOUNTING



© 1986 Information Systems of America, 500 Northridge Road, Atlanta, GA 30338

MANAGING INFORMATION FOR ALL ITS WORTH.

ISA
INFORMATION SYSTEMS OF AMERICA

## Opinion

# 1 study doubts ERISA birth . . .

A STUDY BY RICHARD A. IPPOLITO, chief economist at the Department of Labor raises some profoundly disturbing questions about the Employee Retirement Income Security Act.

Mr. Ippolito, in his study, argued ERISA was not an employee protection law targeted at eliminating pension fraud. Indeed, he argued there was little evidence that fraud — the deprivation of employees of promised pensions by employers — was a serious problem before the passage of ERISA.

It was, he argued, a law designed to transfer benefits from a large group, taxpayers and shareholders, to a small favored group, union members, specifically members of union pension plans.

This transfer, he said, took place through the Pension Benefit Guaranty Corp., and he suggests ERISA was only passed so the PBGC could be established.

Mr. Ippolito based his conclusions on economic and statistical analysis of the pension industry before and after ERISA. If it stands up to critical analysis, a case could be made for the abolition, or at least major modification of the PBGC.

Among the questions raised by the study are:

- To what extent were the members of Congress and their legislative staffs manipulated by union executives in the writing of ERISA? Or were members of Congress responsible for the passage of ERISA aware there was no great incidence of fraud and the aim was to provide a unique benefit to union plan members?
- If members of Congress were not manipulated and really believed fraud to be widespread, why were not stronger measures passed in ERISA to prevent fraud? Mr. Ippolito argues persuasively that fraud is just as easy after ERISA as it was before ERISA.
- If there was no great incidence of pension fraud, why should corporations continue to bear the expense of filling out Form 5500, the pension fund annual report?
- If members of Congress truly believed there was a serious problem, why was the PBGC not set up on proper insurance industry lines, with risk-adjusted premiums?
- Why should the great bulk of taxpayers and corporate shareholders continue to subsidize unionized corporations and their employees through the PBGC?
- Why has it been virtually impossible to reform the PBGC to make it function more like an insurance company and thus reduce the incentives for corporations to move away from defined benefit plans to defined contribution plans?

In all probability, these questions will not be answered. Mr. Ippolito's study probably will be studiously ignored by Congress. He has raised embarrassing issues about the heritage of ERISA.

However, an embarrassed silence on Capitol Hill may confirm what Mr. Ippolito's study suggests — ERISA's birth may have been illegitimate.

# . . . a second confirms bad news

MR. IPPOLITO had even more bad news for pension funds. In two separate studies, he confirmed earlier studies that showed pension funds had underperformed the market over time and mutual funds had outperformed it.

In particular, it confirmed the Berkowitz-Logue study reported in *Pensions & Investment Age* Aug. 4.

The differences between the Berkowitz-Logue study and Mr. Ippolito's pension fund study are that the Berkowitz-Logue study used only 120 plans for a 16-year period while the Ippolito study examined 1,500 plans for a seven-year period.

Nevertheless, they both concluded pension funds underperform the market indexes.

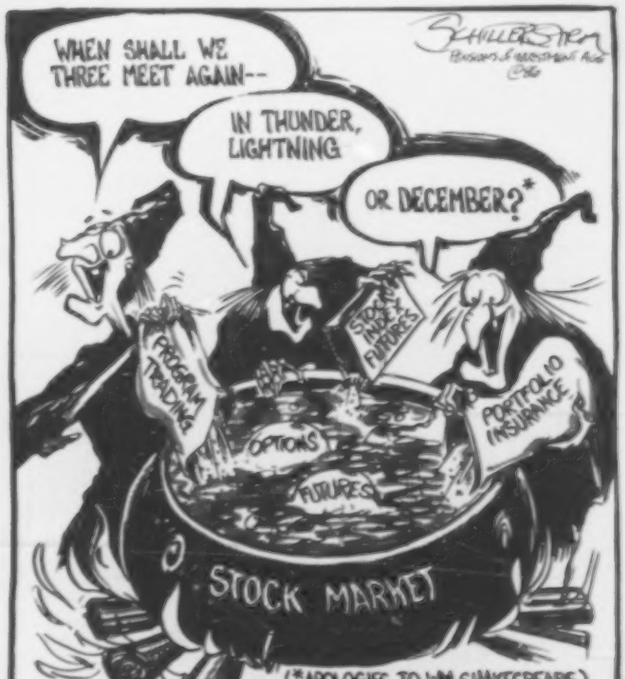
Messrs. Berkowitz and Logue theorized excessive turnover and high management fees might be the cause of this underperformance.

Mr. Ippolito's study found no evidence that turnover or fees were the cause.

The causes of underperformance by pension funds deserve close study, now that Mr. Ippolito has challenged the handiest excuses.

Perhaps it is simply that in aggregate, pension funds are so large they dominate the market and therefore cannot be expected to beat the market.

Even if that is so, it does not mean individual pension funds cannot beat the markets during long periods. But it does mean pension executives must consider whether it is worth the time and the effort to seek better-than-market performance when an index fund will deliver performance equal to the market.




## Letters to the editor

### MicroStar data

To the Editor: I noticed Bank of America's MicroStar service was omitted from the treasury workstation listing in your July 21 Cash Management Directory. Since MicroStar is a leader and the largest selling service available, we were surprised to see it missing from your list.

I apologize if this was an oversight on our part, although in the listing under "U.S. Banks," the information is current and accurate. In your chart of bank services, you list BofA as having a treasury workstation with the note "see profile for additional information."

In case we failed to supply you with the information, Bank of America's microcomputer-based MicroStar products include communications, liquidity management, foreign exchange management, electronic funds transfer, cash accounting, investment and debt management, letters of credit initiation and multicurrency debt and investment management. The products can be used on a stand-

Currently, MicroStar is used by more than 500 customers worldwide.

Many of the products have been tailored to meet the needs of customers in specific geographic markets.

In the future, please feel free to contact me for information about MicroStar.

**Abdul Premji**
Vice president
Bank of America
San Francisco

*Editor's Note: Bank of America was sent a questionnaire, and was contacted several times.*

### Wrong number

To the Editor: Your Sept. 15 Money Movers article should have identified the Illinois Municipal Retirement Fund as $3 billion rather than the published $2.3 billion fund.

**H. Mori**
Assistant director
Illinois Municipal
Retirement Fund
Chicago

Pensions & Investment Age

**EDITOR:** Michael J. Clowes *(New York)*
**MANAGING EDITOR:** Nancy K. Webman *(Chicago)*
**ASSISTANT MANAGING EDITOR:** Elizabeth Karier *(Chicago)*
**N.Y. BUREAU CHIEF:** Joel Chernoff
**ASSOCIATE EDITORS:** Barry B. Burr *(Chicago)*, Marci Baker *(New York)*, Steve Hemmerick *(Los Angeles)*
**WASHINGTON EDITOR:** Richard J. Gillespie
**STAFF REPORTERS:** Chuck Paustian *(Chicago)*, Trudy Ring *(Chicago)*, Brad Rudin *(New York)*, Fred Williams *(Dallas)*
**COPY EDITOR:** Joanne Friedrick
**DIRECTORY COORDINATOR:** Carol Wiley
**EDITORIAL PRODUCTION:** Kristina M. Schramm *(Manager)*, Thomas J. Linden *(Asst. Manager)*
**EDITORIAL ASSISTANTS:** Arline Larson *(Chicago)*, Marlene Givant *(New York)*
**CORPORATE ART DIRECTOR:** Joe Faraci

**PUBLISHER:** William T. Bisson Jr. *(New York)*

**ADVERTISING SALES DIRECTOR:** Daniel S. Dent *(New York)*
**ADVERTISING SALES STAFF:** *(New York):* Sarah Michels Strader *(Eastern Adv. Mgr.)*, Yvonne P. Hobson, Jane Howell, Richard Zittle *(Atlantic Mgr.)*
*(Chicago):* Russ H. Hoefer *(Midwest Mgr.)*, Michael McEvily
Pattis Group, Alex Lilburn, 1800 N. Highland, Hollywood, Calif. 90028 (213/462-2700)
**PROMOTION DEPARTMENT:** Julie Hunt *(Director)*, Louise Sinnott *(Manager)*
**CLASSIFIED SALES:** Andrew Claflin 212/210-0284 *(New York)*
**CLASSIFIED PRODUCTION:** Jackie Henderson 312/649-5280 *(Chicago)*
**REPRINT MANAGER & EDITORIAL INDEX SUBSCRIPTIONS:** Ulla Rodriguez 212/210-0124
**ADVERTISING PRODUCTION MGR.** Kathy Knight *(Chicago)*
**ASSISTANTS TO SALES STAFF:** Susan Montaperto *(New York)*, Kenia Simonette *(New York)*
**CIRCULATION DEPARTMENT:** Barbara Kisch *(Manager)* 313/446-0478; *(PIPER subscription)* 313/446-0478; Patricia McMikel *(Subscription info.)* 313/446-0421; Carolyn L. Vincent *(Back copy sales)* 313/446-1600

**PUBLISHING DIRECTOR:** Stephen D. Gilkenson

**CRAIN COMMUNICATIONS INC.,** publisher of Advertising Age, Automotive News, AutoWeek, Business Insurance, Business Marketing, City & State, Crain's Chicago Business, Crain's Cleveland Business, Electronic Media, Modern Healthcare and Monthly Detroit.

**G.D. Crain Jr.,** founder (1885-1973)
**Mrs. G.D. Crain,** chairman
**Keith E. Crain,** vice-chairman
**S.R. Bernstein,** chairman/exec. committee
**Rance Crain,** president/editorial director
Mary K. Crain, treasurer
**Merrilee P. Crain,** secretary
**William Morrow,** senior vp/operations
**H.L. Stevenson,** corporate editor
**Alice Sisloff,** corp. marketing manager

Published every other week by Crain Communications, Inc. Offices at 220 E. 42nd St., New York 10017 (212/210-0100); 740 Rush St., Chicago 60611 (312-649-5200); 814 National Press Bldg., Washington, D.C. 20045 (202/662-7200); 6404 Wilshire Blvd., Los Angeles 90048 (213/651-2710); 1 North-Park East, Suite 114, 8950 N. Central Expwy., Dallas 75231 (214/692-0848).

$4.00 an issue, $78 a year in the U.S. Add $25 per year for air delivery to Europe and Middle East. Add $10 per year for surface mail to all other foreign countries. Add $30 for air delivery in U.S. and Canada.

WILLIAM STRONG, vp-circulation, JOHN HUFFMAN, fulfillment director. Four weeks notice required for change of address. Address all subscription correspondence to Pensions & Investment Age, 965 Jefferson, Detroit, Mich. 48207.Telex number: 25-4248; Cable address: CRAINCOM. Microfilm copies are available from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, Mich. 48012. Microfiche copies are available from Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Oh. 44691.

Member of Business Publications Audit of Circulation
ABP VBPA

# Wall Street's WINNERS

# Salomon repeats . . .

*Continued from page 3*
of about $400 billion in assets under management and an average of $4.1 billion each.

Investors were asked to rate the best firms for equity research, equity trading, bond research and bond trading.

In tabulating the scores, firms named first in each of the four categories were awarded three points. Those named second were given two points and those named third, one point.

Under this system, Salomon scored 402 points; Merrill, 300 points; and Goldman, 298 points.

First Boston Corp. placed fourth in the overall score, with 213 points. Well behind First Boston was fifth place Morgan Stanley & Co., with 97 points.

Those responding to the survey paid out $242 million in commissions to brokers in 1985, up 27.4% from the $190 million paid in the previous year. Individually, brokerage fees ranged from $225,000 to $16.6 million. The average for brokerage fees was $2.5 million, a 19% increase from the average reported for 1984.

The money managers on average used 44 brokerage firms, up six from last year's survey. In addition, the average per-share trading cost continued its decline for the third consecutive year.

The cost of a trade fell to an average of 9.6 cents a share in this year's survey, down 9.4% from the 10.6 cents averaged in the previous year.

Goldman, Sachs, meanwhile, moved ahead of Merrill Lynch as the firm generating the most commission dollars.

Respondents reported they directed an aggregate of $12.3 million in commissions to Goldman. Merrill received the second largest aggregate sum — $11.1 million — followed by Morgan Stanley, with $4.2 million; Salomon Brothers, $3.8 million; and E.F. Hutton & Co., $2.8 million.

In *P&I Age*'s survey last year, respondents gave Merrill Lynch the most in commission dollars — $8.6 million — followed by Goldman, $7.4 million, and Salomon, $3.4 million.

In the brokerage ratings of research and execution, Salomon chalked up most of its total points as a result of its strength in the fixed-income categories. The firm ranked first in bond research, with 155 points, receiving 37 first-place mentions, 20 second-place ones and four third-place mentions.

At the same time, it generated 123 total points from respondents for best fixed-income execution. Respondents mentioned Salomon first 26 times; second, 18 times; and third, nine times.

Salomon's closest contender in fixed-income research was First Boston, which garnered 80 points. First Boston received 15 first-place mentions; 13 second-place mentions; and nine third-place ones.

In fixed-income execution, Merrill Lynch came in second, with 82 points. Merrill won 17 first-place ratings for fixed-income execution, 11 second-place ratings and two third-place ratings.

While Salomon ran way ahead of the pack in the fixed-income research and execution categories, other firms took top honors for equity research and block trading.

In equity research, Merrill was the leader for the fourth consecutive year, with 104 points in the category. The firm was listed first by 24 respondents; second by 11; and third by 11.

Goldman, Sachs came in second in equity research, garnering 74 points. The firm was rated first by 15 respondents, second by 12 respondents and third by five.

First Boston was third in equity research, with 45 points; Drexel Burnham Lambert Inc. was fourth, with 32 points; and Salomon was fifth, with 30.

Goldman grabbed the spotlight for best block trading capabilities. It was awarded 152 points, with 36 managers listing the firm first; 17 picking it second; and 10, third.

Salomon came in second in block trades, tallying 94 points, with 17 first-place mentions, 19 second-place mentions and five third-place mentions.

Merrill finished third, with 68 points; Morgan Stanley, fourth, with 41 points; and First Boston, fifth, with 35.

Alex. Brown & Sons, Baltimore, was named the leading regional investment banking firm, moving to first place from third last year. Alex. Brown generated 51 points; the firm received 12 first-place mentions; four second-place ones; and seven third-place mentions.

Robinson-Humphrey, Atlanta, which was third last year, took the No. 2 spot. The firm scored 34 points; it got seven first-place mentions; three second-place mentions and seven third-place mentions.

William Blair & Co., Chicago, last year's top-rated regional firm, came in third this year. It garnered 32 points — six mentions each for first and second place and two for third place.

Among other results of the survey, 16% of respondents said they had executed so-called program trades, where an entire portfolio of securities is sold in one transaction.

Those engaging in these transactions reported total volume of program trades of $415.5 million, with the average transaction totaling $34.6 million. The largest trade of this kind was put at $100 million, while the smallest was $1.5 million.

Goldman and Salomon were mentioned most frequently — five times each — as the firm tapped to do the portfolio trades.

Respondents were almost evenly divided in their opinions on the effect on the stock market of program arbitrage (trading that takes advantage of the arbitrage between the cash market and the stock index futures market).

Fifty respondents, or about 52%, acknowledged concern over short-term volatility and public anxiety.

As one respondent put it: "Programs are causing too much volatility. The public's perception of risk in the equity markets will inhibit their participation."

Said another: "Program trading

*Continued on page 34*

## How brokers rate on research and trade execution (number of mentions)

| | Most often named 1st | Most often named 2nd | Most often named 3rd |
|---|---|---|---|
| Best fixed-income execution | Merrill Lynch (24)<br>Goldman, Sachs (15)<br>First Boston ( 7)<br>Drexel Burnham ( 6)<br>Salomon Brothers ( 5) | Goldman, Sachs (12)<br>Merrill Lynch (11)<br>First Boston ( 7)<br>Kidder Peabody ( 7)<br>Salomon Brothers ( 6)<br>Donaldson Lufkin ( 6) | First Boston (10)<br>Merrill Lynch (10)<br>Drexel Burnham ( 8)<br>Kidder Peabody ( 7)<br>Morgan Stanley ( 6)<br>Goldman, Sachs ( 5) |
| Best equity research | Goldman, Sachs (36)<br>Salomon Brothers (17)<br>Merrill Lynch (12)<br>Morgan Stanley ( 5)<br>Donaldson Lufkin ( 3)<br>PaineWebber ( 3) | Salomon Brothers (19)<br>Goldman, Sachs (17)<br>First Boston (11)<br>Merrill Lynch (11)<br>Morgan Stanley ( 9)<br>Kidder Peabody ( 2)<br>C.J. Lawrence ( 2)<br>Pru-Bache ( 2) | Merrill Lynch (10)<br>Goldman, Sachs (10)<br>Morgan Stanley ( 8)<br>PaineWebber ( 8)<br>First Boston ( 7)<br>Smith Barney ( 6)<br>Salomon Brothers ( 5) |
| Best block trading | Salomon Brothers (37)<br>First Boston (15)<br>Merrill Lynch ( 7)<br>L.F. Rothschild ( 3)<br>Goldman, Sachs ( 2) | Salomon Brothers (20)<br>First Boston (13)<br>Merrill Lynch (11)<br>Morgan Stanley ( 6)<br>Goldman, Sachs ( 5) | Goldman, Sachs (13)<br>First Boston ( 9)<br>L.F. Rothschild ( 7)<br>Morgan Stanley ( 5)<br>Shearson Lehman ( 5)<br>Merrill Lynch ( 4)<br>Salomon Brothers ( 4) |
| Best fixed-income research | Salomon Brothers (26)<br>Merrill Lynch (17)<br>Goldman, Sachs ( 9)<br>First Boston ( 6)<br>Drexel Burnham ( 3)<br>L.F. Rothschild ( 3) | Salomon Brothers (18)<br>First Boston (15)<br>Merrill Lynch (11)<br>Shearson Lehman ( 6)<br>Morgan Stanley ( 5) | Goldman, Sachs (10)<br>Salomon Brothers ( 9)<br>Morgan Stanley ( 7)<br>Drexel Burnham ( 5)<br>First Boston ( 5)<br>Pru-Bache ( 3) |

### Best stock market technician

| Technician | Total weighted points |
|---|---|
| John Mendelson | 58 |
| Robert Farrell | 52 |
| Alan Shaw | 26 |
| Ralph Acampora | 10 |

### Best Wall Street economist

| Economist | Total weighted points |
|---|---|
| Edward Hyman | 124 |
| Gary Wenglowski | 50 |
| Edward Yardeni | 39 |
| Gary Schilling | 10 |

## Institutional use of brokers

### Total brokerage commissions paid by investment managers

| | |
|---|---|
| Aggregate: | $241,950,454 |
| High: | 16,637,000 |
| Average: | 2,494,000 |
| Low: | 225,000 |

### Trading costs per share

| | |
|---|---|
| High: | 27.0¢ |
| Average: | 9.6¢ |
| Low: | 5.0¢ |

### Program transactions volume and brokers most often doing the deals

| | | |
|---|---|---|
| Aggregate: | $415,500,000 | Goldman, Sachs (5)[1] |
| High: | 100,000,000 | Salomon Brothers (5) |
| Average: | 34,625,000 | Merrill Lynch (3) |
| Low: | 1,500,000 | Morgan Stanley (2) |
| | | Kidder Peabody (2) |

### Brokers that received the most in fees from respondents

| | |
|---|---|
| Goldman, Sachs | $12,285,940 |
| Merrill Lynch | 11,123,400 |
| Morgan Stanley | 4,242,178 |
| Salomon Brothers | 3,818,630 |
| E.F. Hutton | 2,844,518 |

### Number of firms used by one investment manager

| | |
|---|---|
| High: | 190 |
| Average: | 44 |
| Low: | 5 |

[1] Number of mentions

# Salomon . . .

*Continued from page 33*

has increased the volatility of what used to be an orderly auction market. The wide gyrations and price fluctuations resulting from the programs make trading in the specific stocks more difficult."

A third noted his firm "is concerned about the short-term positive or negative impact it can have on security prices only as it affects the willingness of the public to be participants in the security markets."

He added, however, his firm on a short-term basis looks to use "the short-term price impacts to capitalize on better buy/sell opportunities."

Many of those who said they were unconcerned over the impact of program arbitrage plays generally said it was because any increased volatility tended to be short term or temporary. Said one manager, whose response reflected those of others: "Program arbitrage can't change the general market trend by itself."

As for the best economist and stock market technicians, the opinions of respondents remained fairly constant from last year's survey.

Edward Hyman of Cyrus J. Lawrence Inc. once again ran away with the votes for best Wall Street economist, garnering 124 points, while Goldman's Gary Wenglowski held on to the No. 2 spot, with 50 points.

Edward Yardeni of Prudential-Bache Securities ranked third, with 39 points, replacing last year's third place winner, Henry Kaufman of Salomon. Mr. Kaufman garnered only six points from managers this year, to rank sixth.

Meanwhile, John Mendelson of Dean Witter Reynolds Inc. edged out Robert Farrell of Merrill Lynch as best stock market technician. Mr. Mendelson was awarded 88 points from money managers, while Mr. Farrell garnered 82.

Alan Shaw of Smith Barney, Harris Upham & Co. moved back into third place in this year's survey, scoring 26 points from managers. Mr. Shaw lost that seat in last year's survey to Stanley Berge of Tucker Anthony & R.L. Day Inc.

Asked where they think the Dow Jones industrial average will be Dec. 31, respondents revealed a bullish outlook on the stock market. Predictions for the Dow ranged from 1,587 to 2,500, with the average being 1,922 and the median, 1,925. ■

**Best overall brokerage firms**

| Firm | Total points |
|---|---|
| Salomon Brothers | 402 |
| Merrill Lynch | 300 |
| Goldman, Sachs | 298 |
| First Boston | 213 |
| Morgan Stanley | 97 |

**Best regional broker**

| | |
|---|---|
| Alex. Brown | 51 |
| Robinson Humphrey | 34 |
| William Blair | 32 |
| Montgomery Securities | 22 |
| McDonald & Co. | 21 |

**Best equity research**

| | |
|---|---|
| Merrill Lynch | 103 |
| Goldman, Sachs | 74 |
| First Boston | 45 |
| Drexel Burnham | 32 |
| Salomon Brothers | 30 |

**Best block trading**

| | |
|---|---|
| Goldman, Sachs | 152 |
| Salomon Brothers | 94 |
| Merrill Lynch | 68 |
| Morgan Stanley | 41 |
| First Boston | 35 |

**Best fixed-income research**

| | |
|---|---|
| Salomon Brothers | 155 |
| First Boston | 80 |
| Merrill Lynch | 47 |
| Goldman, Sachs | 29 |
| Morgan Stanley | 17 |

**Best fixed-income execution**

| | |
|---|---|
| Salomon Brothers | 123 |
| Merrill Lynch | 82 |
| First Boston | 53 |
| Goldman, Sachs | 43 |
| Drexel Burnham | 21 |


We get straight A's.

Crown Life's financial performance has earned us straight A's from some of the country's most prestigious independent rating institutions. These ratings confirm what our clients have always known – Crown Life is a first class company.

AAA CLAIMS PAYING ABILITY

We are proud to join a select group of companies who have been awarded Standard and Poor's top claims paying rating. Standard and Poor's defines this rating as: "extremely strong capacity to meet contractual policy obligations."

A+ OPERATING PERFORMANCE

As long as A.M. Best has been giving out ratings, it has given Crown Life the highest rating possible, A+ (Superior). This rating is based on extensive analysis of Crown Life's financial condition and operating performance.

A PORTFOLIO THAT OUTPERFORMS OTHERS

Crown's investment portfolio has regularly outperformed the industry in terms of yield. Average asset quality is high, and careful attention is given to matching assets and liabilities.

Crown Life ranks among the top 2% of life companies in North America. With an asset base exceeding $5 billion, we provide more than $60 billion of life insurance coverage for more than 3 million clients worldwide.

If you're looking for a company to provide a suitable investment vehicle for your pension fund clients, talk to us at Crown Life. When it comes to a proven record of financial performance, we make the grade.

1-800-237-4134

CrownLife
Beyond the expected


# Foundation's director out

MILWAUKEE — A Wisconsi circuit court judge permanentl has removed Harry G. John a trustee and director of the D Rance Inc. foundation, bringing t a close the suit filed by two othe directors, including Mr. John' former wife.

In a separate action involving D Rance, a federal judge denied th motions filed on behalf of Pain eWebber Inc., New York, and Pau Sarnoff, a vice president of Pain eWebber, seeking to overturn a pre vious verdict for $28.2 million i damages and requesting a new trial

The judge also awarded D Rance an additional $3.2 millio in prejudgment interest.

A third De Rance suit, filed i U.S. District Court in Milwauke and seeking more than $40 millio in damages, charges First Wilshir Securities Management Inc., fiv of its principals and Morgan Olmstead, Kennedy & Gardne Inc., all of Los Angeles, wit fraud, breach of contract an breach of fiduciary responsibility

Erica P. John, a director of D Rance, and Donald A. Gallagher director and trustee of the foun dation, filed the suit seeking th removal of Mr. John charging hir with waste and gross misconduct

William Wiseman, a partner a Smith & O'Neil, Milwaukee, an an attorney working on the D Rance suits, said additional pro ceedings against Mr. John may b filed.

The suit against PaineWebbe and Mr. Sarnoff alleged tradin abuses on gold commodities.

# Corporate Finance

## Midwest retailer hires N.Y. firm for IPO

By Barry B. Burr

CHICAGO — When Lands' End Inc. went looking for investment banking firms to manage its planned initial public offering, investment banks in Chicago and the rest of the Midwest weren't even considered, much to their consternation.

Among those ignored by the mail-order merchandiser was Robert W. Baird & Co., Milwaukee, which handled Lands' End's only private placement, a $10 million 12⅞% note, still outstanding.

According to some of the investment bankers involved and other sources, Lands' End, based in Chicago and operating from Dodgeville, Wis., invited presentations from only four firms, all of them New York-based — including Salomon Brothers Inc., Merrill Lynch Capital Markets Inc. and Goldman, Sachs & Co. — before selecting Kidder Peabody & Co. as the sole manager for the 2.1 million-share offering.

Kidder is aiming to sell the offering the last week of September or first week in October at an estimated $31 to $33 a share.

The estimated $67 million offering would be the biggest IPO Kidder has managed this year, according to IDD Information Services Inc., New York. In the eight previous IPOs it managed or co-managed this year, Kidder raised a total of $188.2 million, according to IDD.

Kidder's largest IPO underwriting was $54.4 million for American Cablesystems Inc., Beverly, Mass. Kidder was co-manager of that deal in May with E.F. Hutton & Co. and Drexel Burnham Lambert Inc. The largest IPO for which Kidder was sole manager was the $30.5 million Harleysville Group Inc., Harleysville, Pa., offering, also in May.

Lands' End's estimated price per share is unusually high for an initial public offering, investment bankers and others not involved with the offering said.

Lands' End's price, estimated by Kidder in the 36-page preliminary prospectus at $31 to $33 a share, would be one of the highest for an IPO this year. Only two IPOs have sold at more than $30 a share this year, according to IDD.

Harleysville National Corp., Harleysville, Pa., underwritten by W.H. Newbold's Son & Co., Philadelphia, sold at $30.50 a share, raising $4.4 million; and Morgan Stanley & Co., New York, underwritten by its investment banking unit, sold at $56.50 a share, raising $163.8 million.

(Harleysville Group is an insurance company and has no connection with Harleysville National, a bank holding company.)

In terms of total proceeds, however, 47 other IPOs this year raised at least $60 million each.

At an estimated $32 a share, the Lands' End price carries a multiple of 28.3 times over pro forma earnings of $1.13 a share, for the year ended Jan. 31. In the six months ended July 31, it reported earnings of 27 cents a share compared with 30 cents a share in the same period last year. An estimate of fiscal 1986 earnings was unavailable, although the company's prospectus noted the seasonal nature of its sales, recording 40.5% to 54.5% of its net income in the fourth quarter in each of the past three years.

Executives at the company specializing in "yuppie" apparel and yachting supplies declined to comment on the offering.

Speculating on why Lands' End interviewed only national firms to manage its IPO, Perrin Long, an analyst at Lipper Analytical Securities Corp., New York, said, "A $60 million deal for a regional firm is too big.

"Normally, regional firms don't try to handle (alone) deals in excess of $25 million.

"It's not too much for a regional firm to co-manage. It's a lot for Chicago firms to manage singly."

"Baloney," responded E. David Coolidge III, partner and manager-corporate finance, William Blair & Co., Chicago.

He noted two other large IPOs for which Blair was co-manager, the $120 million Pearle Health Services Inc., Dallas, in 1983 with Goldman, Sachs, and the $21 million Western Publishing Group Inc., New York, last April with PaineWebber Inc. and Drexel Burnham Lambert.

"If we can handle a half of $12 million or a third of $210 million, I don't know why we couldn't handle all of $60 million," Mr. Coolidge said.

"We would be happy to take it on all alone.

"When you don't have the chance to make the pitch, it's pretty hard to make the case for your qualifications."

Peter G. Banzhaf, senior vice president of Robert W. Baird, the Milwaukee investment banking firm, also expressed disappointment about being passed over by Lands' End.

"We just weren't given the opportunity," he said. "It looks like an attractive offering."

Baird handled Lands' End's $1 million private placement in 1983. According to the prospectus, the note is payable in six equal annual installments, beginning in 1988.

A regional investment banker who asked not to be named said, "We were obviously extremely disappointed . . . we were not asked to make a presentation.

"We don't have any reason why we were not asked."

He said he believes his company could have managed the deal alone.

He said companies with regional presence frequently invite regional firms to co-manage the offerings.

*Continued on page 4*

### Aftermarket performance of IPOs managed by Kidder Peabody
Jan. 1 — Sept. 15, 1986

| Issuer | Total initial value ($ millions) | Initial price per share | Aftermarket performance: price per share (9/15) | Aftermarket performance: % change in price |
|---|---|---|---|---|
| American Cablesystems* | $54.4 | 14½ | 13⅜ | −6 |
| Harleysville Group | 30.5 | 16¼ | 15¾ | −3.1 |
| Perception Technology | 21.6 | 18 | 15¼ | −15.3 |
| Genzyme* | 28.3 | 10 | 9½ | −5 |
| Groundwater Technology | 18.5 | 18½ | 22½ | 21.6 |
| Geonex | 8.2 | 8 | 8¼ | 3.1 |
| Stars to Go* | 22.2 | 12 | 12 | 0 |
| Marble Financial | 4.5 | 14 | 18½ | 32 |
| | | | Total change in value** | −1.8 |

* Indicated Kidder was lead co-manager; otherwise Kidder was sole manager.
** Total current value of all shares divided by total initial value (number of shares not shown in table).
Sources: IDD Information Services Inc., New York, and newspaper quotes. Calculations by *Pensions & Investment Age*.

## Toy makers ready to play Wall Street's game

By Brad Rudin

A 1.2 million-share offering by Lewis Galoob Toys Inc. last month showed toy companies, used to reacting to the demands of the toy market, now also are reacting to the demands of the capital markets.

At the same time, the offering by the relatively immature company is an indication that Wall Street's perception and acceptance of toy companies are changing.

The Galoob offering was only one of several in the past six months by toy companies — the beneficiaries of a baby boom — seeking to insulate themselves from the risks long associated with the industry by broadening their product line and strengthening their balance sheets.

The lure of those goals encouraged Galoob to make its public stock offering last month, said Dennis McGill, the company's chief financial officer. The South San Francisco-based company sold the 1.2 million shares to the public for proceeds of at least $17 million.

Changes in the toy industry combined with a bigger market have made equity and debt offerings by the sellers of playthings more welcome on Wall Street.

Still, some analysts say, the seasonal nature of the industry and the fickle market inject an added element of risk to toy company issues.

The industry has been growing more sensitive to the dangers posed by a narrow product focus, said E. John Rosenwald Jr., a co-president of Bear, Stearns & Co., New York, and a director of toymaker Hasbro Inc.

"The issue you raise is the issue that puts pressure on all toy company managements that are public to have a portfolio of products that does not depend heavily on one product," Mr. Rosenwald said.

Galoob reported net earnings of $118,000, or 2 cents per share, on net sales of $57.2 million in 1985. The previous year, Galoob reported net earnings of $5.7 million, or 86 cents per share, on sales of $54.2 million.

While the company earned $7.9 million from operations in 1984, it suffered a $310,000 loss from operations in 1985 when sales from one of its dolls wasn't as high as expected.

Operating expenses increased to $28.1 million in 1985, up from $19.3 million the previous year.

The offering will enable the company to widen its line of merchandise and boost sales, Mr. McGill said.

"When you're trying for growth in the toy business, product is king."

"We felt that to maintain the high level of growth of our goals, getting a little more capital . . . was a good move," Mr. McGill said.

Galoob also might use the proceeds to

*Continued on page 4*

### The toy industry's top three

| Company | Net sales ($ millions) 1985 | Net sales ($ millions) 1984 | Net earnings (loss) ($ millions) 1985 | Net earnings (loss) ($ millions) 1984 | Net earnings (loss) per share (dollars) 1985 | Net earnings (loss) per share (dollars) 1984 | Long-term debt ($ millions) 1985 | Long-term debt ($ millions) 1984 | Stockholders equity ($ millions) 1985 | Stockholders equity ($ millions) 1984 |
|---|---|---|---|---|---|---|---|---|---|---|
| Hasbro Inc. | $1,200 | $719 | $99 | $52.4 | $3.55/diluted | $2.54/diluted | 185.7 | 127.5 | 417.9 | 290.8 |
| Mattel Inc. | 1,000 | 880.9* | 78.7 | 85.6* | 1.42 | 1.60* | 289.6 | 186.4 | 198.1 | 126.2 |
| Coleco Industries | 776 | 774 | 64.2** | −79.8 | 3.87**/primary<br>3.17**/diluted | −4.95/primary | 149.9 | 133.7 | 102.4 | 10.5 |

* Represents unaudited pro forma summary of operations for the year ended Dec. 29, 1984 as if the capital investment and exchange offer transactions had taken place on the first day of the year.
** Excludes extraordinary credit resulting from tax loss carryforwards of $18.7 million, or $1.13 per share primary, and 88 cents per share fully diluted.
Source: Company annual reports

# Ready to play . . .

*Continued from page 39*

finance licensing agreements. Many of the company's products, such as The A-Team and Mr. T, are marketed under license from the trademark holder. Other licenses could be bought in the future, he said.

In addition, the company is considering a move into the production of television programs featuring Galoob products, Mr. McGill said.

Finally, the equity offering paves the way for Galoob's plan to become a much bigger company. The offering provides cash without adding debt to the balance sheet.

"We believe that we are going to have some acquisitions. And it was my wish to keep the debt side of the balance sheet clear. We have no long-term debt at all," Mr. McGill said.

Issuing equity is a "double-edged sword," Mr. McGill said. "It's a very valuable thing if you are doing well. But at the same time if you're not doing well, it can hurt you."

### Worlds of Wonder

Worlds of Wonder, which went public in June, expects to use about half of the $66.7 million in proceeds for repayment of debt. The other half will be used to satisfy general working capital requirements or to repay bank debt incurred for working capital.

"We were a one-product toy company last year," said Richard B. Stein, the chief financial officer at the Fremont, Calif.-based company that produces the Teddy Ruxpin talking bear. "This year, we're a six-product company. Obviously starting out at a small base we have room to grow more easily than the established companies."

The first quarterly report issued by the company, for the three months ended June 30, shows a net loss of $1.3 million, or 7 cents per share, on net sales of $23.5 million. Sales are not reported for the same period last year, but the report puts the net loss at $1.7 million, or 9 cents per share.

For the fiscal year ended March 31, the company reported net income of $8.1 million, or 43 cents per share, and net sales of $93 million.

Worlds of Wonder expects to tap the public markets again in the future, Mr. Stein said. "Obviously, we feel that our company with its rapid growth rate — one that we believe we can sustain — will need to go back to the market from time to time if we can continue to grow."

The company is creating a solid foundation for itself by diversifying into several areas, said Louis J. Paglia, an associate at Smith Barney, Harris Upham & Co., New York, which acted as the lead manager in the initial public offering. Mr. Paglia pointed to the company's plans to license Teddy Ruxpin pajamas and create television programs based on Teddy Ruxpin and Lazer Tag, another Worlds of Wonder product.

Because the larger toy companies are solid and diversified, they get equal treatment in the equity markets, said Susan Humphreville, a vice president at Drexel Burnham Lambert Inc., Beverly Hills, Calif. Drexel has underwritten offerings for Hasbro and Mattel Inc. "I don't think there is a discount that you would automatically apply to being in the toy business," Ms. Humphreville said.

### Tyco Toys Inc.

Tyco Toys Inc., which issued convertible debt last month, is attractive to investors because its business is based on well-established product lines, said Greg Berlacher, an assistant vice president at Advest Inc., Hartford, Conn., the lead underwriter for the convertible issue.

Tyco, which is based in Moorestown, N.J., sells electric trains, car racing sets and building blocks.

Holders of the 8% convertible subordinated debentures due 2001 can convert to stock when Tyco shares, which traded at 7⅛ when the deal was priced in August, reach 8¾. Recently, it was trading around 6¾. The conversion premium is 18%.

Tyco reported net income of $2 2 million on sales of $65 million in 1985 and net income of $1.7 million on sales of $62.7 million in 1984. The company made an initial public offering in February.

Tyco's convertible debt received a B3 rating from Moody's Investors Service and a CCC+ from Standard & Poor's Corp. Both New York rating agencies cited the company's leverage in their rating reports. With the sale of the convertible issue, debt will stand at 70% of capitalization, according to Moody's.

Although concerned with the company's leverage, the Moody's report cited the Tyco's experienced management, stable core product line and growing market as positive factors.

### Shed risky image

"For the first time in many, many years, a majority of the toy companies that are publicly traded are well received both by John Q. Public and the institutional investor," said David S. Leibowitz, an analyst with American Securities Corp., New York.

"The group has been carried along by the rest of the market and, in fact, has led the market for quite some time with very much widened price-earnings ratios," he said.

Toy company issuers have started to shed the risky image that plagued them in the past, industry insiders agreed.

"The old-time toy company used to be a one-product-type company and, therefore, there was a lot of risk in the one product going away with a change in consumer taste," said Walter D. Slavens, treasurer at Hasbro, the nation's biggest seller of toys. "That is the viewpoint that the capital markets have had up until recently."

Hasbro, Pawtucket, R.I., became one of the world's largest toy companies in 1984 when it acquired the Milton Bradley Co., which specialized in games.

The risks associated with obsolescence can be contained by broadening the product line, Mr. Slavens said. "The biggest difficulty that any company has in the capital markets is trying to get that point across."

Coleco Industries, the maker of the Cabbage Patch dolls, has been trying to reduce its dependence on this product line, said Michael S. Schwefel, general counsel at the West Hartford, Conn.-based company. He pointed to Coleco's purchase earlier this year of Selchow & Righter Co., the makers of Scrabble, and Leisure Dynamics Inc., which sold toys, games and books.

Population and retailing trends are positive factors for toy companies seeking access to the capital markets, said Mr. Rosenwald of Bear, Stearns.

### A year-round market

In addition, recently established toy supermarkets such as Toys 'R' Us provide sellers with a year-round outlet for their goods.

Prospects for a more even sales cycle can be overstated, said Michael G. McCafferty, the treasurer at Mattel, Hawthorne, Calif. "In spite of our long-range strategy to make toys a year-round business, there will always be a Christmas in the fourth quarter," he said.

Issuers of securities in the toy industry have good news to tell investors during road shows, Mr. Rosenwald said. "You go into the demographics, you go into the specialty retailers and show if you have a broad list, it's a damn good place to have your dough."

Merrill Lynch Capital Markets, New York, analyst Harold Vogel offered a less bullish estimate of the industry, saying projections of modest growth limit Wall Street's appetite for toy company issues. "If you're growing at 3% to 5% domestically, you're not showing above-average growth, so why should capital be attracted to it?"

Mr. Vogel discounted the industry's market growth claims and the stretching of the sales cycle through the year. "It's a damn tough business to be in."

### Consolidation a plus

Consolidation holds promise for the toy industry, according to a report issued by the U.S. Department of Commerce. "Mergers, acquisitions and divestitures are producing a more concentrated industry composed of larger and stronger companies."

This trend means more toy companies will seek access to the capital markets for financing, said Laurie A. Lively, an analyst at Oppenheimer & Co. in New York.

The price-adjusted value of toy shipments in the United States is expected to increase by 1.8% this year, according to the Commerce Department. "This year has been a soft year," said Douglas Thomson, president of the Toy Manufacturers of America, the New York-based trade association.

"Retailers have been rather chary about putting too much inventory in. We really haven't had the hot products we had with Cabbage Patch, Transformers and Trivial Pursuit. So I'm inclined to think that we'll be rather flat compared to last year."

At Smith Barney, analyst Terry McEvoy offered another view. "I think the outlook for Christmas sales of toys is terrific."

But toy industry sales are notoriously hard to predict, said Mr. Leibowitz of American Securities. "This is a very faddish business. He who had the hot hand last year may not have the hot hand this year." ■

# Trading sought

CHICAGO — The Chicago Mercantile Exchange has applied with the Commodity Futures Trading Commission for permission to trade, in Chicago, a futures contract on the Nikkei 225 index of Japanese stocks.

The proposed contract is identical to the Nikkei 225 futures contract introduced Sept. 3 at the Singapore International Monetary Exchange. The Singapore exchange has a sub-licensing agreement with the Mercantile.

The Nikkei is an index average of the prices of 225 of the 1,000 issues listed on the Tokyo Stock Exchange, the second largest equity market in the world. ■

## New issues of corporate securities

Sept. 1 — Sept. 12, 1986

| Issue date | Company | Amount ($ mil.) | Type of security | Offering price Debt (%) Share ($) | Gross spread as % offer price | Where traded (to list) | Managers |
|---|---|---|---|---|---|---|---|
| **Debt** | | | | | | | |
| 9/9 | City of Memphis | 400.00 | Bonds | 100.00% | 1.158 | OTC | Drexel Burnham/Howard, Weil, Labouisse, Friedrichs/Morgan Keegan |
| 9/12 | System Energy Resources | 300.00 | First Mtg. | 100.00% | — | OTC | Morgan Stanley/First Boston/Merrill Lynch/Salomon |
| 9/10 | First Brands Corp. | 300.00 | Sr. Sub. Db. | 100.00% | 3.500 | OTC | First Boston |
| 9/12 | System Energy Resources | 250.00 | First Mtg. | 100.00% | — | OTC | Morgan Stanley/First Boston/Merrill Lynch/Salomon |
| 9/9 | Ford Motor Credit Co. | 250.00 | Notes | 99.70% | .451 | OTC | Merrill Lynch |
| 9/12 | System Energy Resources | 200.00 | First Mtg. | 99.00% | — | OTC | Morgan Stanley/First Boston/Merrill Lynch/Salomon |
| 9/11 | Federal National Mortgage Assoc. | 198.00 | Mtg. Backed | Market | Market | OTC | Goldman, Sachs |
| 9/10 | Ambassador General Partnership | 175.00 | Mtg. Notes | 99.75% | 3.008 | OTC | Salomon |
| 9/9 | Houdaille Holdings Corp. | 175.00 | Sub. Notes | Market | Market | OTC | Salomon |
| 9/12 | Anderson Clayton & Co. | 150.00 | Sr. Sub. Note | 100.00% | 3.000 | NY | Prudential-Bache Securities |
| **Common Stock** | | | | | | | |
| 9/4 | Sears, Roebuck & Co. | 331.90 | | $44.25 | 3.28 | NY/MW/PC | Dean Witter Reynolds/Goldman, Sachs (books) |
| 9/3 | Columbia Gas System* | 51.70 | | $41.38 | 0.41 | NY/PH/TOR | Prudential-Bache Securities |
| 9/3 | Global Growth & Income Fund | 50.00 | | $10.00 | 7.00 | IPO (NY) | First Boston/A.G. Edwards/Nikko Securities International |
| 9/11 | Weingarten Realty | 36.50 | | Market | Market | NY | Goldman, Sachs/Alex. Brown & Sons/Merrill Lynch/Rotan Mosle |
| 9/4 | Canonie Environmental Services | 26.30 | | $15.00 | 6.67 | IPO | Kidder Peabody |
| 9/5 | QVC Network | 25.00 | | $10.00 | 8.00 | IPO | Furman Selz Mager Dietz & Birney |
| 9/11 | Boulevard Bancorp | 23.40 | | $18.00 | 6.67 | IPO | Goldman, Sachs/Wm. Blair |
| 9/11 | Guest Supply | 17.10 | | $18.00 | 5.56 | OTC | Kidder Peabody |
| 9/10 | P.A.M. Transportation Services | 16.90 | | $11.25 | 7.02 | IPO | Robinson-Humphrey |
| 9/11 | Victoria Creations | 15.00 | | $11.50 | 6.96 | IPO | Shearson Lehman Brothers |

*Source: Securities Data Co., New York*
**Competitive*

*First mtg.: First mortgage bonds*
*Sr. sub. db.: Senior subordinated debentures*

*MW: Midwest Stock Exchange*
*NY: New York Stock Exchange*
*OTC: Over the Counter*
*IPO: Initial Public Offering*
*PC: Pacific Stock Exchange*
*PH: Philadelphia Stock Exchange*
*TOR: Toronto Stock Exchange*

# Letters to the editor

## Dedication dangers

To the Editor: The article, "Bakery Drops Dedication, Slices Pension Cost," (*Pensions & Investment Age*, June 23), perpetuates some dangerous misconceptions about dedicated portfolios. I'm sure some of the statements and thoughts expressed go through every plan sponsor's mind at some point. Because this article represents an extraordinary collection of red herrings about dedicated portfolios and their management, I wanted to comment on all of these thoughts at once.

The most dangerous of the thoughts expressed is that "good" absolute total returns of a dedicated portfolio can somehow be translated into better funding of a plan's liability. A fixed-income portfolio manager has no business discussing either of these topics. Absolute returns are irrelevant for a dedicated portfolio and plan "funding" is the sponsor's prerogative.

A dedicated portfolio's size and structure is defined as whatever is necessary to generate cash flows to fund a selected portion of the plan's benefit payments. The sponsor picks those payments. The portfolio management method should focus on adding incremental return to the portfolio designed and constrained by the sponsor's asset allocation needs. By definition, interest rate anticipation strategies for total return change a portfolio's maturity and volatility.

Also by definition, these kinds of strategies violate the constraints of a dedicated or immunized portfolio. A bond portfolio can do one thing or another. It can aim for big total returns or maintain the constraints of funding a defined benefit, but it can't do both simultaneously. Imagining that it can leads to the sort of self-delusion described in the article.

### No more dedicated than before

A "Let me pull a rabbit out of my hat" misdirection in the article hides the basic fact of life of dedicated portfolios. The future cash flows generated by any portfolio are exactly the same whether the portfolio is priced in the 14% market of 1984 or today's 8% market.

A coupon payment of $1,000 in February 1996 to meet a $1,000 benefit payment in April 1996 is the same as a coupon payment of $1,000 in February 1996 to meet . . .

The 40% and 50% total return of the portfolio which generates the coupon payment may seem astounding. For a properly constructed dedicated or immunized portfolio, the return exactly matches the 40% or 50% rise in the current cost of funding the plan's projected benefit payments using currently available investment returns. Expected returns of 12% or 14% just aren't easy to come by these days.

The dangerous misconception is that the dedication can be put in place, left for a while, and then removed when some "added benefit" has appeared because of the sharp decline in interest rates. Dedication's purpose is to immunize out the effects of interest rate changes. Because interest rate risk is nullified and changes cannot hurt the portfolio, how can rate changes create an added benefit? They can't. Once a dedicated portfolio is established it is never more or less dedicated than on the day it was created. It will always continue to perform its originally intended task of generating cash flow to make benefit payments.

### A bit of cheating

There is a plausible explanation for why a decline in interest rates might have created an "added benefit" in the dedicated portfolio described in the article.

The reason is that portfolio might not have been exactly dedicated and that the manager may have been cheating (just a teeny bit) on the constraints of the portfolio.

Back in 1984, when interest rates seemed extraordinarily high, and the yield curve still had a very steep positive slope, the manager might have felt just a little bit bullish. "Interest rates will probably decline," he said and built a little bit of extra interest rate sensitivity into the dedicated portfolio. This shifted the asset-liability match off center.

We refer to this as creating a duration mismatch. If interest rates went down, the asset portfolio would have a greater increase in market value than the increase in the cost of funding the benefit payments (and that is what seems to have happened). Conversely, if interest rates went even higher, the portfolio value would have declined faster than the liability cost.

An extra bit of interest rate risk might have been part of the plan for the portfolio and controlled by the manager. A dangerous self-delusion would be that the portfolio was truly dedicated and had no interest rate risk. A dangerous misconception is that the reward was worth the risk.

The rhetorical question is "Why take any risk in bonds?" Interest rate anticipation is not a consistent method of creating superior returns. In the long run, stocks beat bonds. Bonds have the one advantage of being particularly suited for generating cash flow. Cheating on dedication constraints serves only to foul up that useful capacity of a fixed-income portfolio. It is not even an efficient way to time the market. If the manager was really that bullish, why didn't he have a portfolio of long zero coupons, or stocks for that matter?

There is no question about the manager's opinion now. The portfolios have been liquidated to cash. The interest rate mismatch is now squarely on the short side. A pension fund cannot get any more bearish. The portfolio is also very far away from generating the benefit payments on schedule with certainty.

### Black magic

The actuarial treatment of the plans is the final bizarre element in this case. It seems hard to believe that, after the greatest interest rate decline in history, the actuary would raise the investment return to 11%; a return higher than the previous estimate, higher than is currently available on dedicated portfolios, and certainly higher than is available on the short-term investments currently held by the plans.

The answer must lie in the actuarial treatment when the dedicated portfolios were created. At that time, the assets and a selected group of liability payments are exactly matched off. Whatever rate equates the present value of the liability to the cost of the assets at the time the portfolio is originally purchased determines the investment return for as long as the dedication stays in place.

This rate may or may not have been used to adjust the actuarial assumptions about the overall program. An actuarial "gain" can be realized at any time because of the asset-liability match.

The kind of "pie in the sky" described in the article (if you will excuse the pun) represents common misunderstandings about processes as complicated as asset allocation, actuarial valuation, and dedicated portfolio management.

**Your Master Trust Service should fit just right.**

Not all organizations have the same set of measurements.

That's why at Trust Company, we custom-tailor Master Trust and Master Custody Services to fit your company or institution exactly. We take into account your needs, your people, and your particular ways of doing business.

And along with state-of-the-art technology, we offer you the kind of personalized attention that some banks just can't deliver.

So when you go shopping for a Master Trust or Master Custody Service, make sure you talk to Trust Company Bank. We just might suit you to a T.

For more information call: James E. Arnett, Group Vice President, 404-588-8097, Corporations and Public Sector. Or phone Paul L. Robertson, III, Assistant Vice President, 404-588-7319, Endowments and Foundations.

Trust Company Bank

©1986 Trust Company Bank, Atlanta Georgia

Our philosophy is that dedicated portfolios provide a framework for understanding the impact of different asset structures and provide a sensible purpose for bonds within that structure. The purpose for bonds is not superior total returns. Instead, they are very useful for providing liquidity and cash flow without regard for interest rate movements. On top of that, as portfolio managers, we try to provide whatever incremental return the market will allow.

**Issac N. Frankel**
Vice president
Minton/Newbold's
Capital Management
Philadelphia

## Bank of Montreal

To the Editor: Attached is a profile on Bank of Montreal cash management services.

While the oversight (of missing the July 21 cash management directory) is regrettable, we appreciate your assistance in addressing the matter in this fashion.

Your attention to this matter is appreciated.

Bank of Montreal Cash Management Services is located on the 22nd floor, First Canadian Place, Toronto, Ontario M5X 1A1. With an on-line realtime branch network of more than 1,200 locations coast to coast, it offers a full range of premier cash management services.

Standard transactional products include: wholesale lockbox through any major Canadian city; electronic cash concentration with full reporting detail; zero balancing (both regular and tiered); terminal-initiated wire payment and stop payment; pre-authorized payments (electronic and paper-based); direct deposit (or debit); and account reconciliation.

Bank of Montreal offers a full range of terminal-based transaction and information services based on customer interactive on-line access to his U.S. dollar or Canadian dollar accounts. Services include on-line balance or history inquiries, on-line funds transfer, on-line third-party payments and on-line investment in a special investment account. We recently have introduced on-line initiation of documentary credits.

Additionally, our merger with Harris BankCorp of Chicago has enabled our two organizations to develop some unique products for the North American market. Specifically, Bank of Montreal has linked its EFT system to the ACH network allowing debits and credits to be made at any financial institution (limited only by ACH membership) in either country regardless of point of origin. Our combined lockbox capabilities enable either organization to provide full service to customers with receivables in either country.

**Benjamin Applebaum**
Senior product manager
Bank of Montreal
Toronto

## Explain lump sums

To the Editor: Concerning your "Washington" report on the issue of lump sums, Aug. 18, you should be specific with the issue of "lump sums."

The points made seem to deal with the issue of lump sums at retirement, early or normal, and for purposes of the "administrative cash out language" that is often found in plans to eliminate the necessity of carrying long liabilities for small amounts.

In plan terminations, it has been our experience that a plan consultant, actuary, or attorney for the employer, often specifies that lump sums will be available to all terminated vested and active lives of the plan. Obviously, the issue becomes one of a financial consideration.

We also advocate the purchase of annuities that entitle employees to benefits as prescribed by the plan for all benefits accrued to the date of termination. We often mandate the insurer to cover "the smalls" to alleviate the dissension, provide benefits that have been accrued, and retain the objective of management which is usually: optimize the reversion.

It appears the employer is always paying more. To us, it does not make sense.

Experts get large fees, plan sponsors pay more money and participants generally squander the cash.

The ultimate results seem to conflict severely with overall objectives of the plan sponsor in the first place.

Plan sponsors and practitioners need to be aware of these opportunities in plan closeouts as opposed to normal, early, or termination benefits.

**Joseph B. Bellersen Jr.**
President
The New York GIC Exchange
Cincinnati, Ohio

## Not so simple

To the Editor: Your Sept. 1 editorial regarding simplifying Form 5500 reporting which, incidentally is not limited to pension plans but covers group insurance programs as well, deserves serious consideration. However, two observations:

# Letters to the editor

1. Hopefully, simplification will not be comparable to the tax simplification we are about to experience.

2. No matter how much you simplify it, there will be no achievement of the original goals of the Congress to catch the rascals.

Why? I quote the President's Commission on Organized Crime: "The Department of Labor pays $2.3 million yearly to the IRS to process the forms (5500s). However, review of the 5500s is such a low priority at the IRS that information is not sent to the Office of Pension and Welfare Benefits until at least 18 months from the date of filing by the benefit plan.

"Since there is a three-year statute of limitations on bringing criminal cases for false reporting, OPWB often decides not to investigate cases if the delay caused by the (Internal Revenue Service) results in a potential statute of limitations problem."

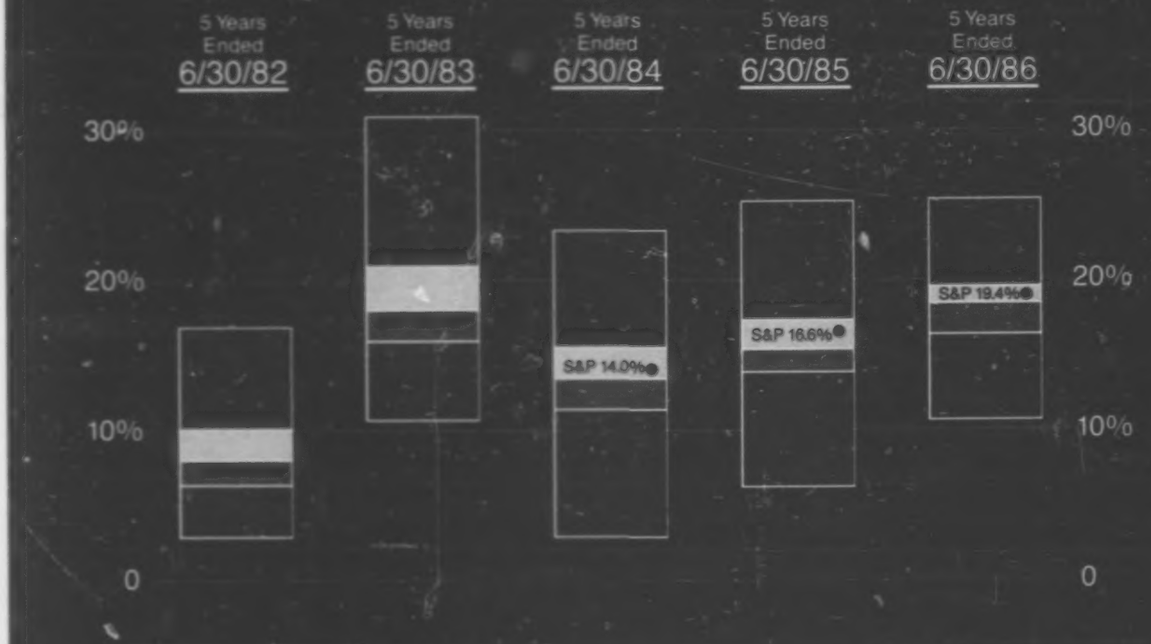
Need more be said?

**Warren F. Jones**
President
Hehr International
Los Angeles


Ask your investment manager if he can match this consistent top quartile performance.

Texas Commerce Equity Growth Fund

Compound Annual Returns




TEXAS COMMERCE EQUITY GROWTH FUND
S&P 500

SOURCE: FRANK RUSSELL COMPANY
BANK EQUITY POOLED ACCOUNTS UNIVERSE

Bill Wagner and Geoff Raymond want to review our pension trust investment performance results with you. Call Bill, Texas Commerce Institutional Trust Group, at 713/236-4497

Texas Commerce Banks

Members FDIC

# Benefit plans widespread among small firms

GREENWICH, Conn. — Nearly seven in 10 small companies have some type of employee benefit plan even though accounting and government reporting requirements continue to change, a new study shows.

But despite their aggressive day-to-day style of doing business, small companies invest plan assets conservatively, according to Greenwich Associates, which released the study based on interviews with more than 12,000 executives.

The larger the company, the greater the likelihood it will have a plan, the study found, with profit-sharing plans the most popular type.

"With a majority of small companies already offering some type of employee benefit plan, it is only a matter of time before this segment becomes a more visible target market for investment mangers and other suppliers of employee benefit services," predicted Rodger F. Smith, a partner at Greenwich.

Of companies with annual sales of $20 million to $50 million, 80% had employee benefit plans. Among companies with sales between $10 million and $19 million, 71% had plans. For those with $5 million to $9 million in sales, 61% had employee benefit plans.

As for investments, small plans were very risk-averse in their asset allocation.

"Given the entrepreneurial management style of most companies, it is ironic that their employee benefit fund assets are invested so conservatively," commented Mr. Smith.

Two-thirds of present assets are invested in fixed-income securities, including marketable bonds, guaranteed investment contracts, and cash and short-term securities, while only about one-third are invested in common stocks and equity real estate.

During the next three years, common stock investments are expected to increase two percentage points, to 27.5% of assets; marketable bonds should rise 1.2 points, to 18.2%; and real estate investments should be up 0.9 points, to 5.8%, the study predicted.

At the same time, investments in cash and short-term securities are expected to decline more than four percentage points, to 22.5% in response to "the continuing softness in interest rates," the report noted.

Assets allocated to GICs are expected to remain virtually unchanged at 21.8%.

As for the type of plan used, profit-sharing plans are most popular, with nearly 40% of all companies surveyed using them, especially those in the wholesale durables industry and larger companies.

Pension plans are second in popularity. Twenty-eight percent of all companies surveyed have pension plans, with 36% of the larger companies using them.

Twelve percent of companies use both pension and profit-sharing plans, while only 8% use saving or thrift plans.

In aggregate, 14% of all small companies use 401(k) plans, with well above-average use by larger companies and business services and machinery and metal fabricating industry groups.

In general, employee benefit plans afford the larger of the small companies "an attractive way to retain quality employees. Bigger companies have to institutionalize benefits — that causes them to use employee benefit plans, particularly 401(k)s," Mr. Smith said.

Assets invested in employee benefit plans are small, the study found, with the average company reporting assets of $1.4 million.

For the largest of the small companies — with sales of $20 million to $50 million — plan assets average $2.6 million.

The smallest companies, with sales of $5 million to $9 million, report average plan assets of $732,000. ■

**Use of employee benefit plans by small companies***

| Company size | Profit sharing | Pension | Pension/ profit sharing | Savings or thrift | 401(k) | IRA | Jointly trusteed | Other |
|---|---|---|---|---|---|---|---|---|
| $20 - 50 million | 45% | 36% | 15% | 11% | 23% | 15% | 5% | 2% |
| $10 - 19 million | 42 | 30 | 13 | 8 | 15 | 13 | 5 | 2 |
| $ 5 - 9 million | 35 | 23 | 9 | 7 | 8 | 12 | 3 | 1 |
| **Total companies** | **39** | **28** | **12** | **8** | **14** | **13** | **4** | **2** |

* Based on companies with a plan.
Source: Greenwich Associates, Greenwich, Conn.

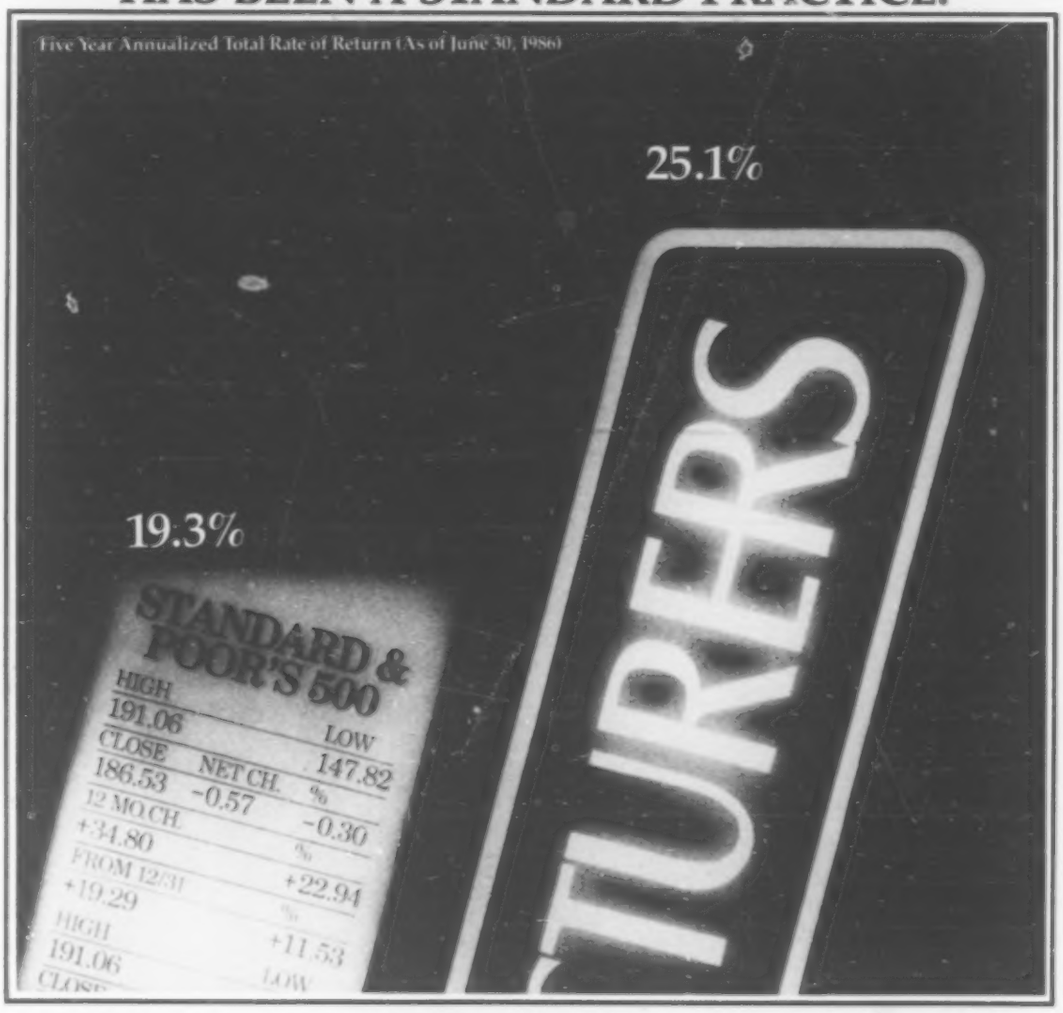
## Indiana vote set on diversification

INDIANAPOLIS — Voters in Indiana will decide Nov. 4 whether state pension funds, now restricted to fixed-income investments, will be able to diversify.

A question on the general election ballot will ask voters if they favor rescinding an article of the Indiana Constitution that prohibits the state from being a shareholder in any company. If this article is rescinded, state pension funds would be able to invest in stocks and other equity-oriented investments such as real estate and venture capital.

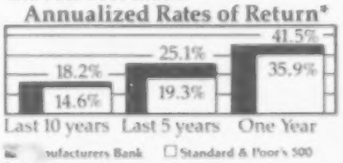
If rescission is approved, the Legislature would have to ratify the decision when it reconvenes early in 1987. ■


AT MANUFACTURERS, OUTPERFORMING STANDARD AND POOR'S HAS BEEN A STANDARD PRACTICE.




For the past 10 years, Manufacturers' Equity Fund for employee benefit accounts has consistently achieved a higher rate of return than the Standard and Poor's 500 Index.

Annualized Rates of Return*




* As of June 30, 1986.

For most banks, this consistency would be unusual. For us, it's been a standard practice.

Because at Manufacturers' Trust Investment Division, we carefully research and structure all our investment programs to provide the highest return relative to risk for businesses and their employees. And we individually tailor each program to meet the specific needs of the company's employee benefit plan. The result is a consistently high performance fund with the flexibility you can expect from Manufacturers Bank.

To find out how Manufacturers' Trust Investment Division can perform for your company, call James M. Dawson in Detroit, Michigan at (313) 222-9794.

Data: SEI Funds Evaluation Services, an independent service. Market conditions fluctuate and these figures are not an indication of future results. The S&P 500 Index is a registered trademark of the Standard & Poor's Corp., New York, N.Y.

MANUFACTURERS BANK
Bank where business banks.

# ERISA falling short . . .

*Continued from page 8*

the Report of the President's Committee on Corporate Pension Funds in 1965 and the idea "was apparently the brainchild of the United Auto Workers, whose president (Walter P. Reuther) held a seat on the committee."

The UAW and the United Steelworkers of America were two of the most vocal supporters of the insurance idea, Mr. Ippolito said.

He said the termination of the Studebaker Corp. pension plan in 1963 stimulated interest in a federal pension insurance program. Available data, however, didn't show the Studebaker termination was part of an overall pattern, he said.

In 1973-'74, however, terminations did increase and they remained high through 1981. This surge was related to the dramatic collapse of the stock market in 1973-'74 that "sharply increased the economic burden of pension plans which, in turn, led to higher levels of termination activity."

Mr. Ippolito argued the Pension Benefit Guaranty Corp.'s insurance program is set up "as if its main design is to effect transfers to a favored few; and that the remainder of the pension population is included for the sole purpose of effecting the promised transfers."

Among the features inconsistent with the notion the PBGC is a bona fide insurance company are:

- Participation is mandatory — large, healthy, well-funded companies, who pay most of the premiums, are forced to participate.
- Premiums are not risk related. Companies that are 300% funded (in a legal sense) and are in healthy and growing industries pay the same premiums as those that are 10% funded and are in dying industries.
- Companies hold options against the PBGC and can "put" their underfunded pension liabilities to the PBGC.
- Companies can obtain funding waivers at will.

In addition, Mr. Ippolito said, there was no evidence the supposedly stricter funding rules of ERISA had changed funding behavior by pension sponsors.

He noted "virtually all systematic underfunding in private pension plans in the United States is attributable to underfunded plans covering unionized participants."

The probability that a plan sponsor company would fail was 200% higher for companies that were 100% unionized than for plan sponsors in general, Mr. Ippolito said.

"Thus, union plans are not only relatively underfunded, they also have a significantly higher chance of failing," Mr. Ippolito said. "The data show that the combination of underfunding and poor financial performance actually results in union plans more often receiving PBGC transfers."

Mr. Ippolito said the 100 largest insufficient terminations have accounted for approximately 90% of the PBGC transfers, and almost 95% of the money transferred in these largest terminations has been claimed by union participants.

Ironically, the data show that after the passage of ERISA, union plans *reduced* their contribution rates.

These results are consistent with the theory that underfunded pension plans may play an important economic function in the company, Mr. Ippolito said. They may bond the unionized work force, giving union workers a stake in the long-term viability of the company.

While PBGC insurance weakened the value of this bonding, shareholder opposition to it was further reduced by the PBGC guarantee being assessed against taxpayers and participants as a whole and not against the shareholders; that shareholders had the ability to "put" the obligation to the PBGC; and that funding waivers could be obtained.

As a result, ERISA, through its insurance provisions, awards a wage subsidy to dying companies and provides an incentive to viable companies to switch to defined contribution plans, said Mr. Ippolito.

Unless the political forces responsible for the legislation have somehow been altered markedly since 1974, an unlikely condition, "it is hard to see how meaningful change in the pension insurance rules can be affected," Mr. Ippolito concluded. ■

## Corrections & clarifications

*Continued from page 10*

qualified pension plans; CEREF II will be offered to qualified pension plans.

CIGNA uses an aggressive management style to create value in individual properties.

The staff works with each of its portfolio managers to develop long-range plans.

Day-to-day management is handled by on-site independent firms supervised by the in-house group.

CIGNA clients include State of Connecticut Trust Systems, Ford Motor, Warner Lambert and Alaska Permanent Fund.

Joel Stoesser, vice president and portfolio manager, is in charge of making property investments.

Tom R. John, senior vice president, is the client contact.

- An article in the July 21 issue on net worth provisions that can prompt accelerated redemption of high-yield bond issues cited a Morgan Stanley & Co. research report listing **Ambrit Inc.**, Clearwater, Fla., as being close to the threshold that would require the company to begin stepped up redemption of 12¾% senior subordinated debt issue maturing in 1996.

The company was cited as having a $21 million net worth, while the bond issue's net worth covenants would require the company to begin accelerated redemption if its net worth, defined as consolidated stockholders equity, fell to $20 million or below.

The $21 million net worth was based on Jan. 31 financial statements of Ambrit. The bonds, a $50 million issue, were sold in March to help raise capital to complete Ambrit's acquisition of Wilbur Chocolate Co. As a result of the acquisition, Ambrit's first quarterly statements following issuance of the bonds showed a consolidated net worth of $42.3 million as of April 30, well above the required $20 million.

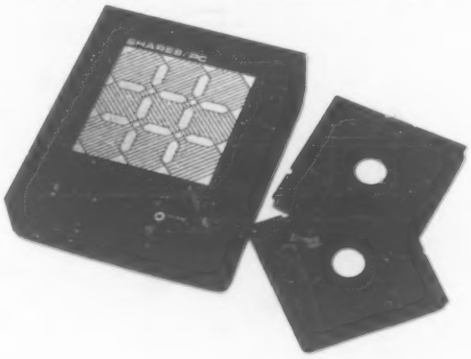
- The **United Air Lines Pilot Variable Plan** has $925 million in assets. The amount was reported incorrectly in the Sept. 15 issue.

Money movers appear in each issue of *Pensions & Investment Age*.

Please send information for the money movers section to:

Joanne Friedrick
*P&I Age*
740 N. Rush St.
Chicago, Ill. 60611.


THE LATEST IMPROVEMENT IN YOUR IBM™ PC IS BROUGHT TO YOU BY CHASE MANHATTAN BANK.




This remarkable improvement is called SHARES/PC.

And it lets you do things you've never been able to do before.

It connects your office directly to Chase's securities handling system, so you get immediate, up to date information, 24 hours a day.

You can monitor asset positions and transaction activity for individual accounts or for groups of accounts. You can access specialized reports such as cash balances, pending trade reports, and bond maturity and interest income schedules.

You can review market indices, foreign exchange rates and company data instantly, while sitting at your desk. And because you get daily portfolio valuations, your investment decisions can always be based on current data.

SHARES/PC is only one aspect of Chase's integrated product approach which includes Custody, Performance Measurement, Global Investing with Multi-Currency Accounting, Cash Management, and much more.

To receive a SHARES/PC demonstration diskette or for more information, contact Angie Maisenberger, V.P. at (212) 730-3054/3434.

And find out how good your IBM PC can really be.

THE CHASE PARTNERSHIP

CHASE

*IBM is a registered trademark of International Business Machines, Corp.*
© 1986 Chase Manhattan Bank, N.A./Member FDIC